ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2003

(Unaudited)

(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

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ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	March 31, 2003	December 31, 2002
	Unaudited	Audited
CURRENT ASSETS		
Cash and cash equivalents	$70,237	$76,280
Short-term bank deposits	1,361	1,650
Trade receivables, net of allowance for doubtful accounts of $3,509 and $3,411 as of March 31, 2003 and December 31, 2002, respectively.	212,006	227,724
Other receivables and prepaid expenses	39,906	34,376
Inventories, net of advances	240,891	220,399
Total current assets	564,401	560,429
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies and partnership	24,986	21,947
Investments in other companies	11,104	11,104
Long-term receivables	7,511	20,859
Long-term bank deposits and loan	3,579	3,686
Severance pay fund	6,771	6,641
	53,951	64,237
PROPERTY, PLANT AND EQUIPMENT, NET	208,854	202,961
OTHER ASSETS, NET		
Goodwill and assembled work-force, net	32,185	32,162
Know-how and other intangible assets, net	71,850	73,607
	104,035	105,769
	$931,241	$933,396

The accompanying notes are an integral part of the consolidated financial statements

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars except share data)

	March 31, 2003	December 31, 2002
	Unaudited	**Audited**
CURRENT LIABILITIES		
Short-term bank credit and loans	$20,737	$30,915
Dividend payable	3,492	-
Trade payables	82,888	82,521
Other payables and accrued expenses	147,180	140,981
Customer advances and amounts in excess of costs incurred	105,629	108,418
Total current liabilities	359,926	362,835
LONG-TERM LIABILITIES		
Long-term loans	68,407	73,173
Advances from customers	35,436	40,411
Deferred income taxes	15,894	16,413
Accrued severance pay	25,123	24,486
	144,860	154,483
MINORITY INTEREST	4,460	4,717
SHAREHOLDERS' EQUITY		
Share capital		
Ordinary shares of NIS1 par value; Authorized - 80,000,000 shares as of March 31, 2003 and December 31, 2002, respectively; Issued – 39,252,083 and 39,212,328 shares as of March 31, 2003 and December 31, 2002, respectively; Outstanding – 38,843,262 and 38,803,507 shares as of March 31, 2003 and December 31, 2002, respectively	11,162	11,154
Accumulated other comprehensive loss	(2,882)	(2,882)
Additional paid-in capital	250,250	248,387
Retained earnings	167,786	159,023
Treasury stock- 408,821 shares as of March 31, 2003 and December 31, 2002, respectively	(4,321)	(4,321)
	421,995	411,361
	$931,241	$933,396

The accompanying notes are an integral part of the consolidated financial statements

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share data)

	Three months ended March 31,		Year ended December 31,
	2003	2002	2002
	Unaudited		Audited
Revenues	$202,190	$185,783	$827,456
Cost of revenues	145,291	133,530	605,313
Gross profit	56,899	52,253	222,143
Research and development costs, net	14,852	12,632	57,010
Marketing and selling expenses	16,153	14,688	65,691
General and administrative expenses	10,984	9,715	41,651
	41,989	37,035	164,352
Operating income	14,910	15,218	57,791
Financial income (expenses), net	(1,276)	8	(3,035)
Other income (expenses), net	109	(146)	(462)
Income before taxes on income	13,743	15,080	54,294
Taxes on income	3,646	3,914	9,348
	10,097	11,166	44,946
Equity in net earnings (losses) of affiliated companies and partnership	1,901	(4)	675
Minority interest	257	548	(508)
Net income	$12,255	$11,710	$45,113
Earnings per share			
Basic net earnings per share	$0.32	$0.30	$1.17
Weighted average number of shares used in computation (in thousand)	38,823	38,401	38,489
Diluted net earnings per share	$0.31	$0.29	$1.13
Weighted average number of shares used in computation (in thousand)	39,793	40,128	39,863

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ELBIT SYSTEMS LTD.
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CONSOLIDATED STATEMENTS OF CHANGES IN SHARHOLDER'S EQUITY

(In thousands of U.S. dollars)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income
Balance as of January 1, 2002 (Audited)	38,330,272	$11,054	$244,625	-	$126,627	$(4,321)	$377,985	
Exercise of options	473,235	100	4,040	-	-	-	4,140	
Tax benefit in respect of options exercised	-	-	648	-	-	-	648	
Amortization of stock compensation	-	-	(926)	-	-	-	(926)	
Dividends paid	-	-	-	-	(12,717)	-	(12,717)	
Net income	-	-	-	-	45,113	-	45,113	$45,113
Minimum pension liability	-	-	-	(2,882)	-	-	(2,882)	(2,882)
Balance as of December 31, 2002 (Audited)	38,803,507	11,154	248,387	(2,882)	159,023	(4,321)	411,361	$42,231
Exercise of options	39,755	8	420	-	-	-	428	
Tax benefit in respect of options exercised	-	-	52	-	-	-	52	
Amortization of stock compensation	-	-	1,391	-	-	-	1,391	
Dividends paid	-	-	-	-	(3,492)	-	(3,492)	
Net income	-	-	-	-	12,255	-	12,255	$12,255
Balance as of March 31, 2003 (Unaudited)	38,843,262	$11,162	$250,250	$(2,882)	$167,786	$(4,321)	$421,995	$12,255
Balance as of January 1, 2002 (Audited)	38,330,272	$11,054	$244,625	-	$126,627	$(4,321)	$377,985	
Exercise of options	114,657	25	1,099	-	-	-	1,124	
Tax benefit in respect of options exercised			270	-	-	-	270	
Amortization of stock compensation	-	-	(299)	-	-	-	(299)	
Dividends paid	-	-	-	-	(3,066)	-	(3,066)	
Net income	-	-	-	-	11,710	-	11,710	$11,710
Balance as of March 31, 2002 (Unaudited)	38,444,929	$11,079	$245,695	-	$135,271	$(4,321)	$387,724	$11,710

The accompanying notes are an integral part of the consolidated financial statements

ELBIT SYSTEMS LTD.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	Three months ended March 31,		Year ended December 31,
	2003	2002	2002
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$12,255	$11,710	$45,113
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,601	7,543	32,937
Amortization of deferred stock compensation	1,391	(299)	(926)
Deferred income taxes	(637)	(817)	(5,620)
Severance pay fund	(130)	266	(113)
Accrued severance pay	637	524	6,373
Loss on disposal of property and equipment	128	29	743
Tax benefit in respect of options exercised	52	270	648
Other adjustments	(25)	(23)	683
Minority interests	(257)	(548)	508
Equity in net losses (earnings) of affiliated companies and partnership	(1,901)	4	(675)
Changes in operating assets and liabilities:			
Decrease in trade receivables, other receivables and prepaid expenses	23,904	18,416	58,554
Increase in inventories	(19,505)	(15,763)	(55,106)
Increase (decrease) in trade payable and accrued expenses	5,879	(29,840)	(19,321)
Increase (decrease) in advances received from customers	(9,002)	(3,368)	42,999
Liabilities to Chief Scientist	337	-	9,197
Net cash provided by (used in) operating activities	22,727	(11,896)	115,994
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other assets	(14,594)	(8,430)	(46,003)
Investment grants received for property, plant and equipment	-	-	119
Acquisition of activity (Schedule A)	-	(2,950)	(5,280)
Investments in affiliated companies and subsidiaries	-	(775)	(1,681)
Proceeds from sale of property, plant and equipment and investments	706	346	956
Long-term loan granted	-	-	(714)
Short-term loan repaid (granted)	(250)	-	1,371
Long-term bank deposits made	(820)	(335)	(1,228)
Long-term bank deposits redeemed	826	557	1,689
Short-term bank deposits, net	250	(195)	(204)
Net cash used in investing activities	(13,882)	(11,782)	(50,975)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	428	1,124	4,140
Repayment of long-term bank loans	(5,315)	(423)	(3,249)
Proceeds from long-term bank loans	-	1,603	2,233
Dividends paid	-	-	(12,717)
Change in short-term bank credit and loans, net	(10,001)	32,826	(19,729)
Net cash provided by (used in) financing activities	(14,888)	35,130	(29,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,043)	11,452	35,697
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	76,280	40,583	40,583
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$70,237	$52,035	$76,280

The accompanying notes are an integral part of the consolidated financial statements

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

(In thousands of U.S. dollars)

	Three months ended March 31,		Year ended December 31,
	2003	2002	2002
	Unaudited		Audited
SUPPLEMENTARY CASH FLOWS ACTIVITIES:			
Cash paid during the year for:			
Income taxes	$4,631	$3,960	$21,730
Interest	$872	$1,149	$2,947
SCHEDULE A:			
Activity acquired			
Estimated net fair value of assets acquired and liabilities assumed at the date of acquisition was as follows:			
Property, plant and equipment		$(275)	$(275)
Know-how and other intangible assets		(5,225)	(5,078)
		(5,500)	(5,353)
Less- Short term debt incurred on acquisition		2,550	73
		$(2,950)	$(5,280)

The accompanying notes are an integral part of the consolidated financial statements

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(In thousands of U.S. dollars)

Note 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of March 31, 2003, and for the three months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. (See Note 5 for the reconciliation from US GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2002.

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2002 in order to conform with the current year's presentation.

Operating results for the three months ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements.

The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Group (which includes Elbit Systems Ltd. and its subsidiaries) are conducted is the U.S. dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (CONT.)
(In thousands of U.S. dollars)

Note 3 - INVENTORIES, NET OF ADVANCES

	March 31, 2003	December 31, 2002
	Unaudited	**Audited**
Cost of long-term contracts in progress	$225,551	$210,418
Raw materials	80,402	75,579
Advances to suppliers and subcontractors	25,829	25,047
	331,782	311,044
Less-		
Cost of contracts in progress deducted from customer advances	12,900	10,658
	318,882	300,386
Less -		
Advances received from customers	64,395	67,624
Provision for losses	13,596	12,363
	$240,891	$220,399

Note 4 - STOCK-BASED COMPENSATION

Pro forma information under SFAS 123 Accounting for Stock Based Compensation is as follows:

	Three months ended March 31, 2003	Three months ended March 31, 2002	Year ended December 31, 2002
	Unaudited	Unaudited	Audited
Net income as reported	$12,255	$11,710	$45,113
Stock based compensation expense (income), related net of tax affect as reported	1,022	(221)	(767)
Stock based compensation (expense) under fair value bases of SFAS 123 related net of tax affect as reported	(679)	(681)	(3,059)
Pro forma net income	$12,598	$10,808	$41,287
Basic net income per share as reported	$0.32	$0.30	$1.17
Pro forma basic net income per share	$0.32	$0.28	$1.07
Diluted net income per share as reported	$0.31	$0.29	$1.13
Pro forma diluted net income per share	$0.32	$0.27	$1.04

Note 5 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. See Note 26 to the 2002 annual financial statements for a description of the differences between US GAAP and Israeli GAAP in respect to the Company. The effects of the differences between US GAAP and Israeli GAAP on the Company's financial statements are detailed below.

ELBIT SYSTEMS LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (CONT.)

(In thousands of U.S. dollars)

Note 5 - RECONCILIATION TO ISRAELI GAAP (Cont)

1. Effect on net income and earnings per share

	For the three months ended March 31,		For the year ended December 31,
	2003	2002	2002
	Unaudited		Audited
A) Net income as reported according to U.S. GAAP	$12,255	$11,710	$45,113
Adjustments to Israeli GAAP	(756)	(1,387)	(4,227)
Net income according to Israeli GAAP	$11,499	$10,323	$40,886
B) Earnings per share			
Basic net income per share			
As reported according to U.S. GAAP	$0.32	$0.30	$1.17
As per Israeli GAAP	$0.30	$0.27	$1.03
Diluted net income per share			
As reported according to U.S. GAAP	$0.31	$0.29	$1.13
As per Israeli GAAP	$0.29	$0.26	$0.96

2. Effect on shareholders' equity

	As reported	Adjustments	As per Israeli GAAP
As of March 31, 2003 (Unaudited)			
Shareholders' equity	$421,995	$(11,884)	$410,111
As of December 31, 2002 (Audited)			
Shareholders' equity	$411,361	$(11,076)	$400,285

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